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Succession Planning: A Brief Guide

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Essential stages

Every family business is constantly striving to achieve a balance among the different interests of a business, its owners, and a wider family. To do this it continually adapts to cope with change, such as births, bereavements, and the arc of various family relationships, changes in ownership and inside the business, and the impact of external economic or societal events, like a recession, or a health pandemic.

This process of incremental, adaptive change may suffice for several years, even a generation, but it will not cope with succession when a major change occurs in the *overall* structures and practices that hold the *entire* family business together.

Succession planning works well when this reality is accepted and the opportunity is grasped to seek more effective mechanisms, structures and ways of functioning that will satisfy the *future* needs of the different interests that are bound together in a family business.

Succession planning will pass through distinct stages. If any stage is ignored or not managed well, the transition will either falter or ultimately be unsuccessful. The stages are Preparation, Disengagement, Exploration, Choice, and Implementation, each of which is summarised below.

Preparation Stage

- Accept that succession is inevitable and involves changes affecting a lot of interests.
- Identify the events that will trigger the start of the transition process; for example retirement of leaders, celebration of an important anniversary; the need to hire fresh talent to cope with new challenges; ownership transfers.
- Avoid denial ("we've got plenty time to think about these things") and over-eagerness ("we need an answer NOW").

Disengagement phase

- Guide everyone into the Exploration Stage, which is next, while keeping the business and family on a relatively even keel.
- Plan the next stages to help manage the uncertainty that is inevitable during a period of succession when you are exploring different options for the future.
- Invest in education of the key players to create acceptance and understanding of what's happening and the work that's needed.

Exploration stage

- Keep a focus on the future.
- Learn from the past but do not plan to live there in future.
- Raise everyone's tolerance for a time of relative uncertainty.

- Identify and test the feasibility of all the alternatives based on contemporary knowledge and practice.
- Avoid premature choice. Take your time and do the job thoroughly.

Choice Stage

- Compromise on what is the best possible outcome in all the circumstances.
- Avoid prolonging Exploration if it is simply to avoid making a Choice.
- Mourn the alternatives not taken and the emotional costs of abandoning them.

Implementation Stage

- Create a timetable for the transition.
- Create an incentive structure for the change.
- Design an announcement strategy.
- Work on letting go of the past and focus on new beginnings.

Who starts?

An inter-generational transition in ownership and leadership of a family business entails the seniors letting go and the next generation(s) being able and willing to step up to the mark. But who starts the process?

The seniors may be anxious about pushing the next generation into making decisions, while the next generation(s) may be reluctant to be seen to be pushing the seniors out the way.

Change cannot happen until those currently in power – usually the seniors - indicate that they are ready to start discussing letting go. It is preferable for that willingness to be made very clear, rather than vague signals being given that are open to interpretation or the sincerity of which may even be doubted.

If seniors are responsible for starting the process of succession planning, the next generation need to enter discussions with a clear understanding of what they want for themselves, as opposed to accepting passively whatever they believe the seniors want.

Succession planning can be viewed as a negotiation in which each person taking part has a clear understanding of their own ‘best outcome’ and a pragmatic willingness to work collaboratively to achieve the ‘best possible outcome’ in all the circumstances. This will enhance the quality of negotiations and help everyone move to achieving a consensus.

A practical definition of consensus that might help this process would be:

“I don’t necessarily agree with everything, but I don’t disagree strongly enough with anything to want to sabotage the outcome”.

Pitfalls - Bad timing

Age matters in transitions. Research into adult development has shown that transitions are smoother when both generations are in synch, meaning that each generation is ready to make the personal changes in their lives that are at the heart of transitions.

For example, the transition between seniors aged 60-70, who are looking to build a structure for the later stage of their lives and a next generation between 35-45, is likely to be easier than if the next generation was 19-25.

The reason is that early adulthood (19-25) involves exploring options for the life you want (where to live, relationships, career options) so settling for a career in the family business may seem unattractive when there are still many avenues to explore. However, as mid-life approaches (35-45), there is a stronger inclination to make choices and have a more established life structure.

The general point is that transitions in a family business are easier if well timed and it is wise to pay heed to this reality when planning when to start.

Resistance and denial

Resistance to change is fine; it protects individuals and the business from the threat of too much change happening too quickly. Change in a family enterprise – or at least planned change – is often relatively slow and the change strategies need to accept that there is only so much change the key players are capable of coping with. In most cases it’s probably best to hurry slowly.

Denial is an enemy of change. For example, the leader who still believes in their own immortality, the next generation who do not want to take responsibility while enjoying the fruits of the business, or the legacy business that no-one can quite admit is in desperate need of restructuring. These can hold back succession planning because the costs are felt to be too high (facing up to mortality, settling down or the fact that the business into which so much effort has been poured has run its course).

In succession planning it’s best to work with resistance (just avoid it overcoming the desire for change) and try to face down denial. One way to do that is to have well planned succession strategy that makes everyone feel less threatened about embarking on the process.

Rushing

After the inevitably of transition or change is accepted, the uncertainty and anxiety that is then unleashed can understandably lead to an irresistible desire to create a succession plan as quickly as possible.

This is an understandable mistake. Even though it can make everyone feel calmer in the short term, it often results in the whole process having to be revisited to resolve the outstanding questions that were not answered properly the first time.

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